United Nations A/61/480

General Assembly

Distr.: General
29 September 2006

Original: English

Sixty-first session
Agenda item 117
Programme budget for the biennium 2006-2007

Contingent liability reserve for the United Nations Postal Administration

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee has considered the report of the Secretary-General on the contingent liability reserve for the United Nations Postal Administration (A/61/295). During its consideration of the report, the Committee met with representatives of the Secretary-General, who provided additional information and clarification.

2. The report of the Secretary-General is submitted further to General Assembly resolution 57/292, section VI, the second performance report of the Secretary-General on the programme budget for the biennium 2002-2003 (A/58/558/Add.1) and the observations and recommendations in the report of the Advisory Committee (A/58/604, paras. 15-21), as they relate to the review of the United Nations Postal Administration (UNPA); as well as the comments of the Secretary-General and the United Nations Chief Executives Board for Coordination on the report of the Joint Inspection Unit on the revenue-producing activities of the United Nations system (see A/57/707 and Add.1).

3. The Advisory Committee notes from the Secretary-General's report (A/61/295) that over the past 20 years UNPA has paid an average of 12.2 per cent of its income of $249.2 million for the period to the respective postal services where it operates (United States of America, Switzerland and Austria) for mailing, and that the other 87.8 per cent could constitute a contingent liability in view of the theoretical possibility that remaining sold stamps would be presented for mailing at any given time. At present, no provision exists to meet such liability.

4. In view of recommendations made by the Board of Auditors and the Office of Internal Oversight Services, the Secretary-General is proposing that the General Assembly establish a reserve, to be funded from UNPA net income, to provide for contingent liabilities for the provision of postal services. The Advisory Committee recalls that the Secretary-General made this recommendation in the context of the

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review of the United Nations Postal Administration (see A/58/558/Add.1). The Committee, at the time, noting the ongoing negotiations between UNPA and the postal authorities where UNPA operates, which could have an impact on the contingent liability, suggested current arrangements for accounting for the sale of United Nations stamps be continued; it also noted that the size of such a reserve fund had not been determined accurately (see A/58/604, paras. 18 and 20-21).

5. The report of the Secretary-General refers to efforts of UNPA to restrict bulk mailing and to obtain benchmarking data from other postal services regarding financial provisions made for contingent liabilities (A/61/295, paras. 6-7). The Secretary-General is proposing to establish the level of the reserve to provide for contingent liabilities for previously issued stamps at $3.3 million, on the basis of the bulk mailing costs for 2005 (which amounted to $330,897), for a period of 10 years (A/61/295, paras. 6 and 9). The reserve would be financed from the net income achieved by UNPA until it reaches the level of $3.3 million.

6. The Advisory Committee notes that UNPA achieved a net income of $2.1 million for the biennium 2004-2005 and is expecting to show a profit again in the biennium 2006-2007, after incurring losses in the previous two bienniums. The Committee requested information on income and expenditure for UNPA for the biennium 2004-2005 (see annex). The Committee was informed that the turnaround is attributed to cost-cutting efforts, changes in operations and the introduction of new products. It is evident from the information provided in the annex that 69.5 per cent of the net income is spent on salaries and common staff costs and travel costs.

7. The proposal, if accepted, would require an exception to regulation 3.14 and rule 103.7 of the Financial Regulations and Rules of the United Nations, which specify, respectively, that "moneys accepted in respect of which no purpose is specified shall be treated as miscellaneous income and reported as gifts in the accounts of the financial period" and that "proceeds from revenue-producing activities and from the rental of United Nations office space shall be credited as miscellaneous income" (A/61/295, para. 3).

8. **The Advisory Committee sees merit in the Secretary-General's proposal to establish a reserve for contingent liabilities for postal services for previously issued UNPA stamps, as recommended by the Board of Auditors and the Office of Internal Oversight Services, to be gradually built up by transferring the balance of the net income of postal services until a ceiling level of $3.3 million is reached. In order to reach the target of $3.3 million, it would be prudent to consider further streamlining UNPA operations, if possible, and providing requisite service with even greater efficiency.**

Annex

United Nations Postal Administration: statement of income and expenditure for the biennium ending 31 December 2005

(United States dollars)

	United Nations Headquarters	*Europe*	*Total*
Income			
Sales and other income	7 093 956.72	7 021 682.12	14 115 638.84
Less: cost of goods sold	1 563 860.01	18 688.58	1 582 548.59
Net income from sales	**5 530 096.71**	**7 002 993.54**	**12 533 090.25**
Expenditures			
Salaries and common staff costs	4 807 541.78	3 810 263.36	8 617 805.14
Travel	33 917.00	57 700.00	91 617.00
Contractual services	—	4 067.55	4 067.55
Operating expenses	582 066.60	397 352.83	979 419.43
Acquisitions	108 841.61	14 591.36	123 432.97
Promotions	371 852.01	230 047.11	601 899.12
Total expenditures	**5 904 219.00**	**4 514 022.21**	**10 418 241.21**
Net income (loss)	**(374 122.29)**	**2 488 971.33**	**2 114 849.04**